Barnwell Industries, Inc. Annual Report
for the fiscal year ended September 30, 1973

Cover:

Recently constructed is the gas processing plant and gathering facility in the Peace River region of Alberta, Canada. This modern plant represents a key development in a joint venture in which Barnwell Industries is participating.

Barnwell Industries, Inc. Annual Report 1973

One of the main priorities of the world today is the development of adequate oil and gas reserves. This heightened emphasis on energy has added a vital new dimension to the prospects of Barnwell Industries.

Officers

Morton H. Kinzler, *President*

B. J. Robbins, *Vice-President and Manager, Canadian Operations; President of Canadian Subsidiaries*

J. S. Barnwell, Jr., *Vice-President and Secretary*

D. J. Otwell, *Treasurer*

Board of Directors

J. S. Barnwell, Jr.

E. P. Bernuth, *Chairman of the Board, Bernuth Lembcke Company, Inc.*

Morton H. Kinzler

Eric Ridder, *Publisher of The Journal of Commerce*

B. J. Robbins

Company Offices

Barnwell Industries, Inc.
Henry C. Beck Building
Shreveport, Louisiana

Barnwell of Canada, Ltd.
Standard Life Building
Calgary, Alberta, Canada

Transfer Agents

Republic National Bank of Dallas
Dallas, Texas

The Chase Manhattan Bank, N.A.
New York, New York

The Canada Trust Company
Toronto, Canada

Stock Exchange Listings

American Stock Exchange, New York, New York

Toronto Stock Exchange, Toronto, Canada

To Our Shareholders:

The fiscal year ended September 30, 1973 was a positive year for Barnwell Industries. Several key factors converged to place the Company in an advantageous position for the future.

Net income increased to $443,944 as compared with $283,265 for the previous fiscal year. Net earnings per share increased to 28 cents per share as compared with 18 cents per share. Oil and gas sales increased to $348,160 as compared with $128,020 for the previous year principally as a result of initial production from gas wells in the Peace River area of Alberta, Canada. Proven reserves of oil and oil equivalent of gas, developed and undeveloped, increased during the fiscal year from about 10 million barrels to about 12 million barrels. Gas production has increased from about 76,000 Mcf to about 1 million Mcf.

The international energy crisis has placed new responsibilities on all North American companies engaged in oil and gas exploration and production. Recent global events have underscored the critical value of both existing and new sources of energy — particularly oil and gas. Governments, private industry and individuals in all industrialized nations are aware that certain fuels are in short supply and facing increasingly high demand. Economists and engineering experts point out that relief may not be attainable until the 1980's.

Barnwell regards its role in the prevailing crisis as a challenge and an opportunity to seek ways to utilize to a greater extent the Company's expertise in order to increase production of our substantial proven reserves, and also to engage in exploration designed to discover and develop additional oil and gas supplies. We see ahead an opportunity to help eliminate energy shortages and to enhance the Company's earning power.

In fiscal 1973, production began in the Peace River region of northwestern Alberta. A modern gas processing plant has been constructed in this field. This plant is one of the largest and most advanced field dehydration refrigeration type gas processing plants in Canada and is equipped with the most advanced pollution controls.

Substantial additional work has been done in the Peace River area since the end of fiscal 1973, including the drilling

of additional wells. Further drilling is planned for the months ahead to increase the field's productivity. It is anticipated that a maximum production rate approximately 50% higher than that prevailing at the end of fiscal 1973 will be reached during the current fiscal year.

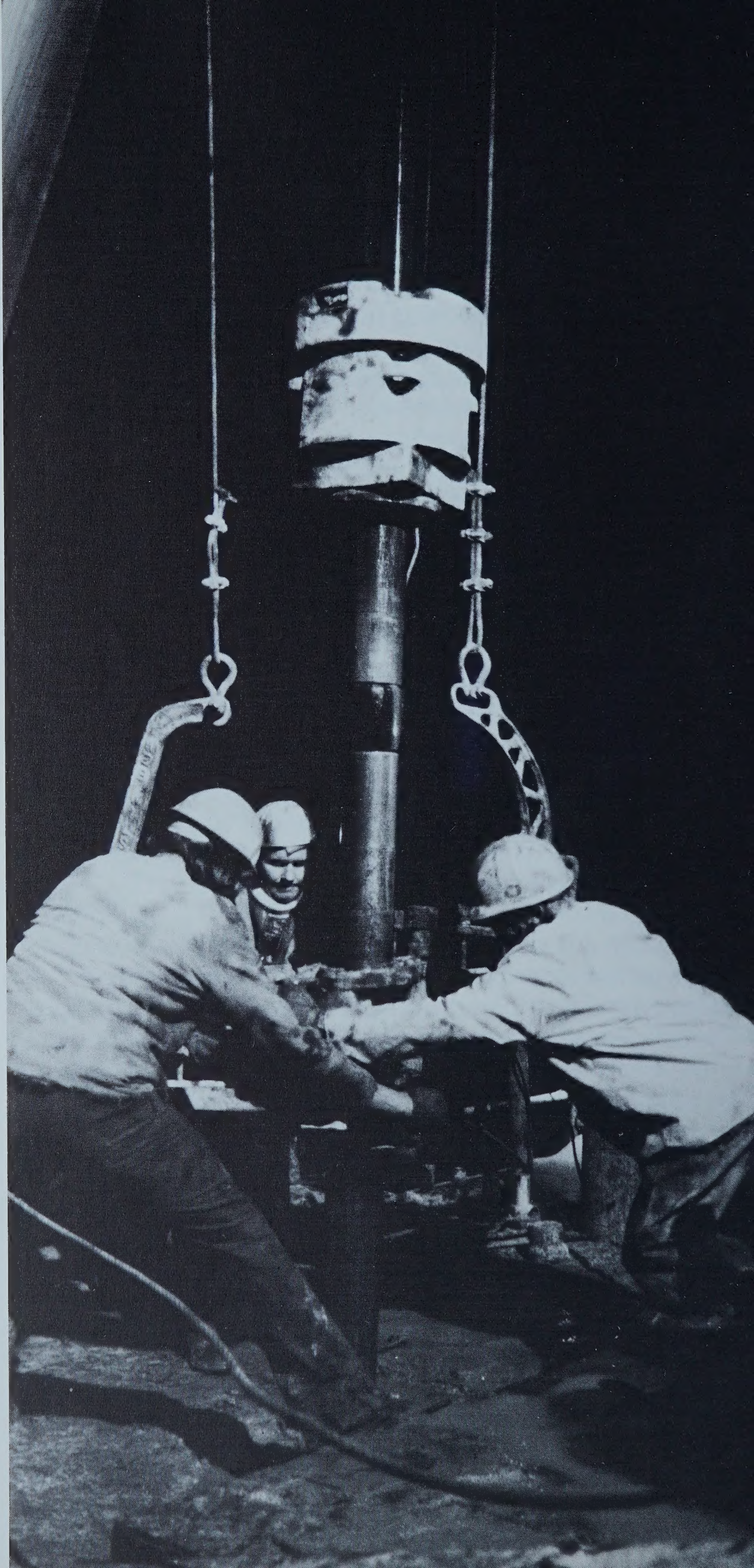
The gas from Peace River is being sold to a pipeline company under a twenty year contract. Under the contract the purchaser has made substantial interest-free advances to finance development of the area and these are to be repaid over a ten year period. After specified amounts of production have been obtained from this field, Barnwell's interest will increase in stages to an average of approximately 9.5% of the working interest in the leases in this area.

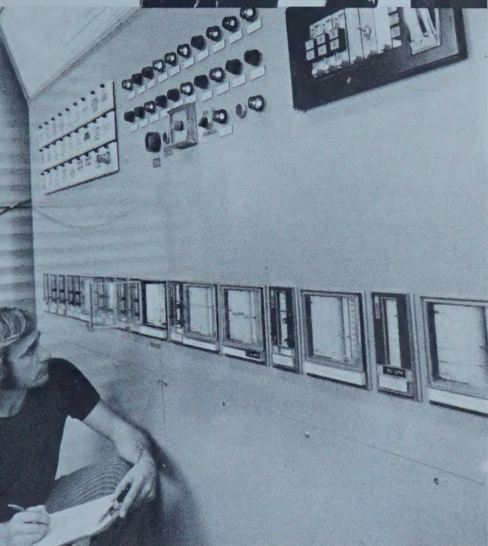
As of July 1, 1973, we obtained an increase in the base price for Peace River gas from 15 cents per Mcf. to 24 cents per Mcf. In January of 1974, the Prime Minister of the Province of Alberta announced that there would be a further increase in the price of gas at the wellhead expected to be effective by July, 1974.

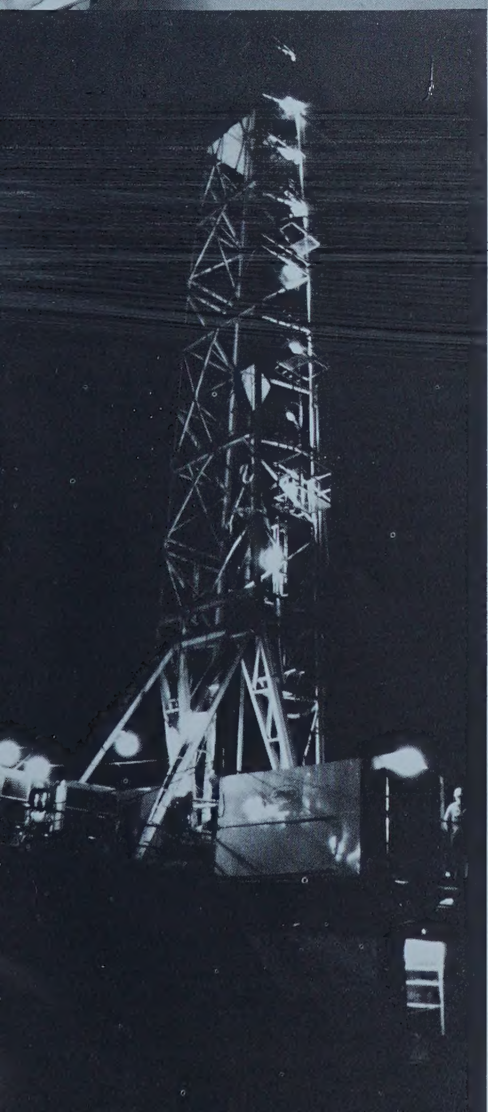
The rate of oil production from our Provost Project continues to be disappointing. We believe that another year or two of water injection will be necessary before significantly increased production is achieved. As stated in the summary of our oil and gas reserves contained elsewhere in this report, it is presently estimated that gross probable oil reserves are approximately 8,788,500 barrels, with Barnwell's share being approximately 5,859,600 barrels. There is a possible recovery of 27,000,000 barrels for the entire Provost Unit, of which Barnwell's share would be approximately 18,000,000 barrels.

As a result of the success Barnwell has achieved in areas such as Peace River, Barnwell intends to continue its turnkey development contracts along with its contract drilling activities.

We have been reviewing the available geological information relating to our acreage in the Williston Basin region of Montana and North Dakota in order to determine what course of action we should adopt with respect to these properties. Since most of our holdings in this area are oil and gas leases with several more years to run, we have been able to observe developments in the area without commit-







ting ourselves to a course of action. There has been considerable activity in this area during the past year, and we have benefited from the fact that we could take the time to make a thorough study of the area. It is our plan during the current year to increase our oil and gas exploration activities in the United States, both in the Williston Basin and elsewhere.

During the year there were no new developments in Barnwell's program for exploring geothermal prospects as a source of energy. We still intend, however, to investigate this energy source as our resources will permit.

In view of the importance of our activities in Canada, Barnwell's Common Stock was listed on the Toronto Stock Exchange on January 3, 1974. Our stock continues to be listed on the American Stock Exchange.

Management is grateful for a dedicated staff and the confidence of our stockholders and associates. We look forward to the coming year in anticipation of improved earnings as the production from our various oil and gas properties increases and we receive the benefit of increased prices.

FOR THE BOARD OF DIRECTORS,

Respectfully submitted,

Morton H Kinzler

Morton H. Kinzler
President

January 28, 1974

The new processing plant and gathering system at Peace River, Alberta, Canada, is regarded as one of the Province's most advanced facilities. At the heart of the operation is a substantial field dehydration refrigeration type gas processing complex. At full production, it will have a capacity of 200 million cubic feet per day of raw gas intake and 2,000 barrels per day of stabilized condensate. Gas is drawn from a network of separation satellites in the field, which are fed by nearly 60 miles of pipe. All equipment and operating techniques have been designed to assure maximum protection of the environment. Confirmed engineering estimates indicate that the Peace River area contains reserves totalling 1.3 trillion cubic feet of gas of which Barnwell's share is 88 billion cubic feet.

Recoverable Oil & Gas Reserves
As of September 1, 1973

Property	Gross Proven & Probable Reserves: Oil (Bbls)	Gas (Billion) (Cu. Ft.)	Oil Equivalent of Gas (Bbls)	Pro... Oil (Bbls)
Peace River, (Dunvegan-Belloy), (N.W. Alberta)	12,905,100*	1,290.51	112,974,000	882,810*
Zama-Rainbow (N.W. Alberta)	8,535,200	50.89	5,271,000	795,300
Hoss (Petitot) (N.E. British Columbia)		36.89	2,582,000	
Garrington (S.W. Alberta)	246,993*	8.23	752,000	
Faith-Smith Coulee (S.E. Alberta)		1.20	98,000	
Red Earth (North Central Alberta)	3,527,432			190,300
Roncott (South Central Saskatchewan)	284,800			32,600
Manyberries (S.E. Alberta)	9,000,000			335,400
Plato (S.E. Saskatchewan)	2,519,700			32,300
Viewfield (South Central Saskatchewan)	84,300			45,000
Loon Lake (N. Alberta)	304,400			263,300
Fenn-Big Valley (South Central Alberta)	289,400			108,500
Simonette (S.E. Alberta)	230,600			20,000
Cherhill (S.E. Alberta)	61,700			14,000
Milk River (South Central Alberta)	29,100			22,800
**Provost (South Central Alberta)	8,788,500			
Totals	33,655,132	1,387.72	121,677,000	1,859,500
	13,152,093*			882,810*

Total Proven Developed Oil, Condensate and Oil Equivalent of Gas (Net of Royalties): .... 10,470,310 Bbls

Total Proven Undeveloped Oil, Condensate and Oil Equivalent of Gas (Net of Royalties): .... 1,624,800 Bbls

Total Probable Oil, Condensate and Oil Equivalent of Gas (Net of Royalties): .... 7,470,237 Bbls

Total Barnwell Proven and Probable Recoverable Oil, Condensate and Oil Equivalent of Gas Reserves (Net of Royalties): .. 19,565,347 Bbls

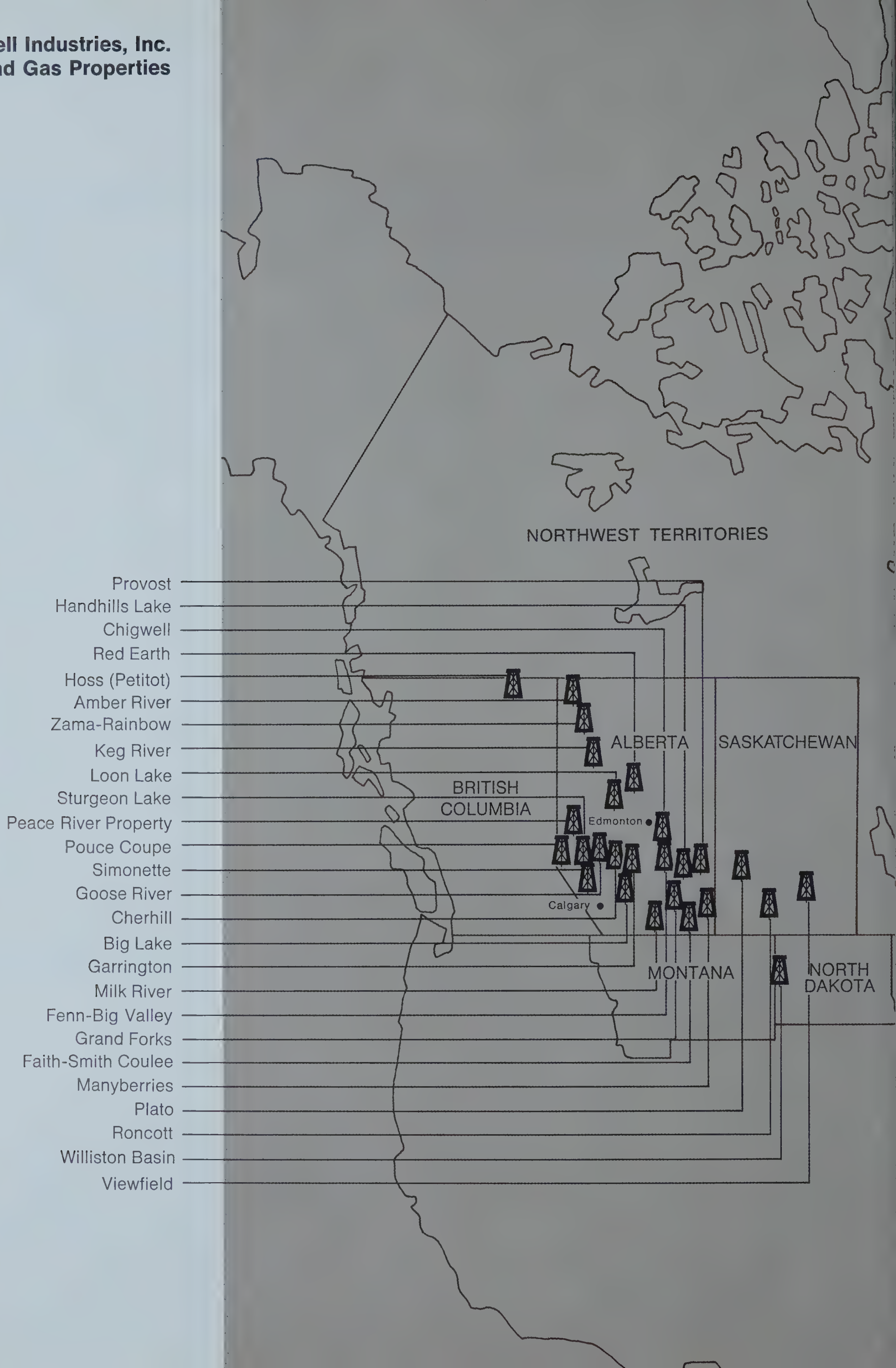
*These figures represent condensate reserves associated with gas production, and are totalled separately from oil reserves.

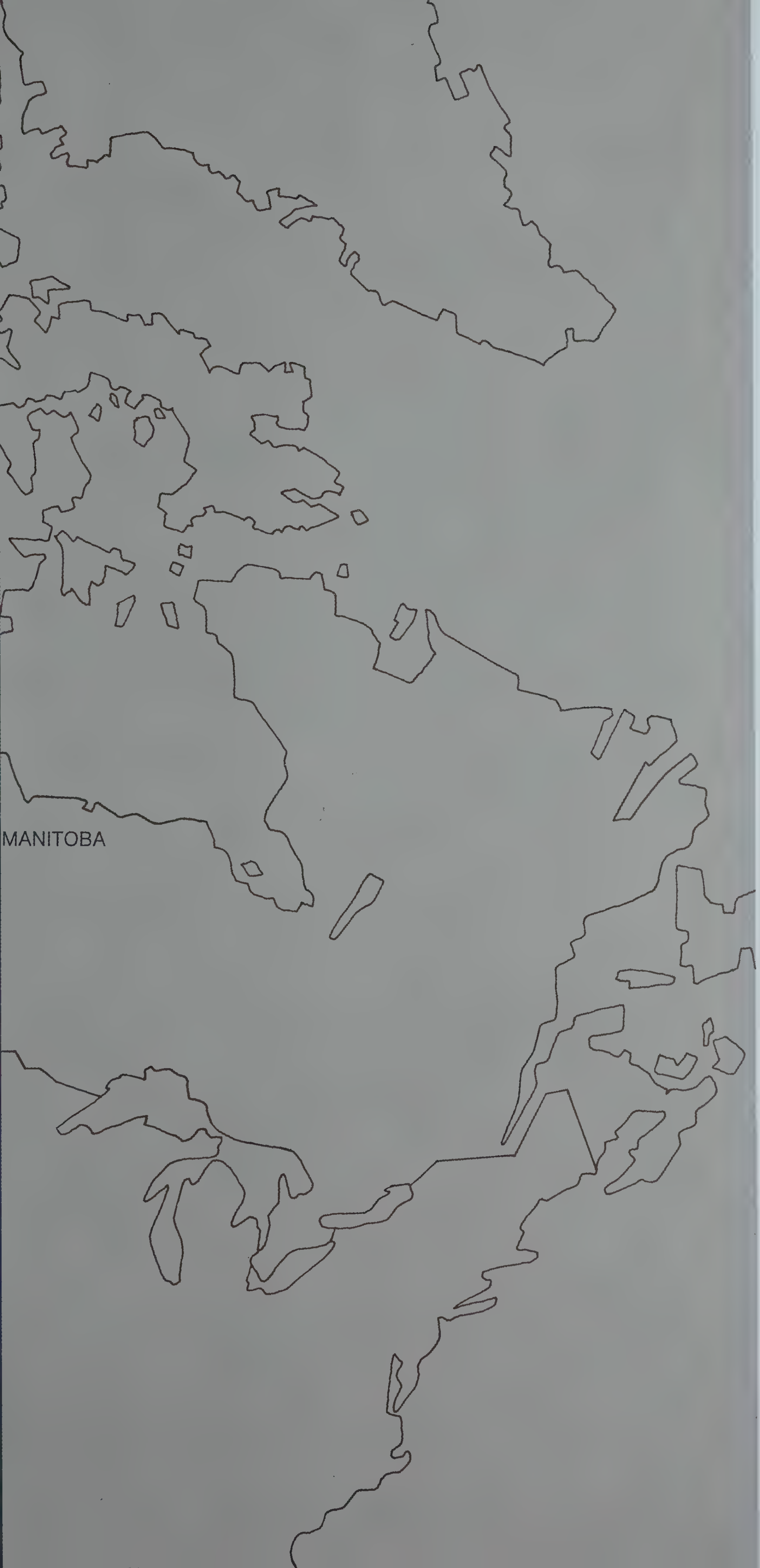
**Although engineering studies indicate a potential net recovery of 27 million barrels for the Provost Unit, of which Barnwell's share would be 18 million barrels, waterflood performance to date indicates that 5.9 million can be considered probable, while the remaining potential is considered possible and is therefore not included here.

Barnwell Net (After Royalties)

Developed		Proven Undeveloped			Probable		
Gas (Billion) (Cu. Ft.)	Oil Equivalent of Gas (Bbls)	Oil (Bbls)	Gas (Billion) (Cu. Ft.)	Oil Equivalent of Gas (Bbls)	Oil (Bbls)	Gas (Billion) (Cu. Ft.)	Oil Equivalent of Gas (Bbls)
38.28	7,728,000						
			5.69	589,000			
			3.92	274,000		3.92	274,000
		15,400*	0.51	47,000	30,800*	1.03	94,000
			0.65	54,000			
		310,000			198,582		
					10,867		
		335,400			1,002,388		
					5,859,600		
38.28	7,728,000	645,400	10.77	964,000	7,071,437	4.95	368,000
		15,400*			30,800*		

Barnwell Industries, Inc.
Oil and Gas Properties

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Barnwell Industries, Inc. and Subsidiaries

Consolidated Balance Sheet

	September 30, 1973	September 30, 1972
ASSETS		
Current Assets:		
Cash	$ 72,319	$ 92,885
Notes receivable (Note A)	88,098	120,354
Accounts receivable — less allowance for doubtful accounts of $21,811 ($22,322 — 1972)	775,072	801,000
Prepaid expenses	33,253	28,197
Total Current Assets	968,742	1,042,436
Other Assets:		
Notes receivable, less current maturities (Note A)	603,330	549,416
Joint operations account receivable	278,289	—
Rental property, net of accumulated depreciation of $265,342 (Note A)	—	399,967
Unamortized debt expense (Note A)	18,960	—
Other	59,892	59,579
	960,471	1,008,962
Property and Equipment — at cost (Notes A, B and C):		
Oil and gas properties	8,887,269	7,274,217
Drilling rigs and equipment	664,408	922,080
Buildings	53,946	53,946
Other property and equipment	216,654	195,250
	9,822,277	8,445,493
Accumulated depreciation, depletion, amortization and valuation allowances	921,450	1,349,099
	8,900,827	7,096,394
	$10,830,040	$9,147,792
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks and other (Note C)	$ 447,065	$ —
Accounts payable	1,189,292	1,001,296
Advances on turnkey development contracts (Note A)	71,758	1,350,486
Accrued payroll, interest and expenses	29,781	14,067
Taxes on income (Notes A and D)	—	—
Current maturities on long-term debt (Note C)	424,782	210,300
Total Current Liabilities	2,162,678	2,576,149
Long-Term Debt (Notes C and G):		
6% convertible notes	1,000,000	—
Repayable advances from gas purchaser	629,798	735,157
Demand production loans	1,228,326	373,908
Other	129,720	227,004
	2,987,844	1,336,069
Stockholders' Equity (Notes A, E and F):		
Common stock, par value $.50 a share: Authorized 2,000,000 shares Issued and outstanding 1,584,297 shares	792,149	792,149
Additional paid-in capital	2,932,391	2,932,391
Retained earnings	1,954,978	1,511,034
	5,679,518	5,235,574
	$10,830,040	$9,147,792

See notes to consolidated financial statements.

Barnwell Industries, Inc. and Subsidiaries

Consolidated Statement of Operations

	Year Ended September 30, 1973	1972
Operating Revenues:		
Turnkey development contracts and contract drilling (Note A)	$4,184,871	$4,307,638
Oil and gas sales	348,160	128,020
Interest, real estate rentals and other	72,294	101,156
	4,605,325	4,536,814
Costs and Expenses:		
Cost of turnkey development contracts and contract drilling and operating expenses	2,973,138	3,297,874
General and administrative expenses	784,554	703,762
Depletion, depreciation and amortization (Notes A and B)	197,125	156,461
Loss on sale of rental property	99,019	—
Financial expenses:		
Interest expense	150,936	52,694
Other, including Canadian currency translation (gain) loss (Note A)	(43,391)	42,758
	4,161,381	4,253,549
Earnings before Taxes on Income and Extraordinary Item	443,944	283,265
Foreign Taxes on Income (Note D)	—	24,000
Earnings before Extraordinary Item	443,944	259,265
Income Tax Reduction obtained by utilization of loss carry-forward (Note D)	—	24,000
Net Earnings (Notes A and B)	$ 443,944	$ 283,265
Earnings per Common Share (Note F):		
Before extraordinary item	$.28	$.16
Extraordinary item	—	.02
Net earnings	$.28	$.18

Consolidated Statement of Stockholders' Equity

	Shares	Amount	Additional Paid-in Capital	Retained Earnings
Balances at September 30, 1971	1,546,297	$773,149	$2,650,016	$1,227,769
Common stock issued upon exercise of employee stock options (Note E)	38,000	19,000	282,375	
Net earnings (Notes A and B)				283,265
Balances at September 30, 1972	1,584,297	792,149	2,932,391	1,511,034
Net earnings (Notes A and B)				443,944
Balances at September 30, 1973	1,584,297	$792,149	$2,932,391	$1,954,978

See notes to consolidated financial statements.

Barnwell Industries, Inc. and Subsidiaries

Consolidated Statement of Changes in Financial Position

	Year Ended September 30, 1973	1972
Source of Funds:		
From operations:		
Net earnings, exclusive of extraordinary item	$ 443,944	$ 259,265
Nonworking capital charges to operations:		
Depletion, depreciation and amortization	197,125	156,461
Other	12,205	13,538
Working capital provided from operations, exclusive of extraordinary item	653,274	429,264
Income tax reduction obtained by utilization of loss carry-forward	—	24,000
Proceeds of repayable advance from gas purchaser	—	30,314
Additions to long-term debt	2,229,427	515,095
Undepreciated cost of rental property sold	385,034	—
Proceeds from exercise of employee stock options	—	301,375
	$3,267,735	$ 1,300,048
Application of Funds:		
Net additions to property and equipment	$1,986,625	$ 1,972,483
Maturities and prepayments on long-term debt and repayable advance from gas purchaser	577,652	220,856
Increase in joint operations account receivable	278,289	—
Increase in noncurrent notes receivable	53,914	308,089
Increase (decrease) in other assets	31,478	(26,010)
Increase (decrease) in working capital	339,777	(1,175,370)
	$3,267,735	$ 1,300,048
Details of Changes in Working Capital:		
(Decrease) in cash	$ (20,566)	$ (342,237)
(Decrease) increase in notes receivable	(32,256)	15,845
(Decrease) increase in accounts receivable	(25,928)	162,793
Increase (decrease) in prepaid expenses	5,056	(7,827)
(Increase) decrease in notes payable to banks and other	(447,065)	193,920
(Increase) in accounts payable	(187,996)	(103,121)
Decrease (increase) in advances on turnkey development contracts	1,278,728	(942,809)
(Increase) decrease in accrued payroll, interest and expenses	(15,714)	8,243
(Increase) in current maturities on long-term debt	(214,482)	(160,177)
	$ 339,777	$(1,175,370)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

A. Accounting Policies

—Principles of Consolidation
All significant subsidiaries are wholly-owned and are included in the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated.

Deferred income taxes have not been provided on undistributed earnings of subsidiaries ($1,211,527 at September 30, 1973) as it is management's intention to reinvest such earnings in the operations of those companies.

—Oil and Gas Properties
All costs incurred in the acquisition, exploration and development of oil and gas reserves, including unproductive wells, are capitalized, limited to the discounted present value of the Company's estimated recoverable reserves as determined by independent petroleum engineers. Depletion, depreciation and amortization of all such costs are provided on the unit-of-production method based upon estimated recoverable reserves of all properties.

The Company enters into agreements whereby it acquires an interest in oil and gas properties by performing certain drilling obligations. These drilling obligations are generally fulfilled through turnkey development contracts under which third parties, primarily through limited partnerships in which the Company acts as general partner, earn a portion of the Company's interest by making turnkey drilling contributions in the form of cash (at least ⅔) and non-recourse interest bearing notes repayable out of production. The Company capitalizes as oil and gas properties that portion of the cost of fulfilling the drilling obligations applicable to its interest retained. The excess of turnkey drilling contributions over that portion of the cost of fulfilling the drilling obligations applicable to the interest of third parties is recognized as income when the drilling obligations have been fulfilled and mineral reserves evaluated.

—Depreciation and Amortization
Provision for depreciation of other property and equipment is made principally on a straight-line basis over the estimated useful lives of the property. Annual rates of depreciation are as follows:

Type of Property	Rate
Buildings and rental property	5%
Drilling rigs and equipment	12½% — 20%
Transportation equipment	12½% — 25%
Furniture and fixtures	10%

Deferred debt expense is being amortized ratably over the term of the 6% convertible notes.

—Stock Options
No charge against income is made with respect to qualified options. Upon exercise, common stock is credited with the aggregate par value of the shares, and the remaining proceeds are credited to additional paid-in capital.

—Contract Drilling Income
The Company recognizes income from contract drilling on the completed contract method.

—Translation of Currency
The amounts relating to the Company's Canadian operations have been translated to United States currency at the following rates:

- Monetary assets and liabilities at the rate in effect at year end.
- Revenue and expense, excluding depletion, depreciation and amortization accounts, at the average rate during each year.
- Other accounts at historical rates.

B. Oil and Gas Properties

The Company has acquired oil and gas properties in Canada principally through the drilling of turnkey development contract wells as described in Note A. The Company also has a water injection pressure maintenance program in the Provost area which has been in operation since September 30, 1969, and is designed to increase the amount of oil recoverable from this field. Management estimates the water injection project will require another one or two years operation before significantly increased production will be achieved. The excess of costs and expenses over revenues associated with the project to date has been capitalized and the Company intends to continue this capitalization until such time as annual revenues from oil and gas sales equal the related operating costs incurred. Likewise, recognition of provisions for depletion, depreciation and amortization of the Company's investment in the Provost area will commence at that time. The Company's investment in oil and gas properties, including capitalized development costs, is as follows:

	September 30, 1973	September 30, 1972
Provost area of Canada	$2,422,580	$2,368,340
Other Canadian properties	6,228,575	4,376,997
United States properties	236,114	528,880
	8,887,269	7,274,217
Less accumulated depletion, depreciation, amortization and valuation allowances	558,920	736,490
	$8,328,349	$6,537,727

C. Long-Term Debt

At September 30, 1973, demand loans consisted of the following:

		Current Maturities
Demand, term loan payable to a bank in monthly installments of $5,640 per month plus interest at 1½% over prime (9% at September 30, 1973)	$ 169,200	$ 39,480
Demand, production loans payable to a bank over terms of approximately five years from a portion of net production income applicable to the Company's interest in certain Canadian oil and gas properties with interest payable monthly at rates ranging from ½ of 1% to ¾ of 1% over prime (9% at September 30, 1973)	1,613,628	385,302
	$1,782,828	$ 424,782

Notwithstanding the demand feature of the promissory notes, the bank has advised management it will not demand payment as long as the above repayment schedule is maintained and the Company is not otherwise in default of its obligations. These loans are subject to periodic and at least annual review by the bank.

In conjunction with the demand, production loans above, the Company is contingently liable for the repayment of an additional $1,191,819 of production loans applicable to the portion of the Company's interest in the properties earned by third parties under turnkey development contracts.

On November 27, 1972, the Company issued and sold to an individual $1,000,000 (Canadian) of 6% convertible notes due November 28, 1977. The notes provide for quarterly interest payments and allow conversion into shares of the Company's

common stock. The conversion price is $13 (U.S.) per share, subject to adjustment upon the happening of certain events. If the notes are called for redemption in whole or in part before November 29, 1974, the conversion price will also be adjusted to the then current market price but not less than $10 (U.S.) per share until November 29, 1973 and not less than $11 (U.S.) per share until November 29, 1974.

The $629,798 advances from gas purchaser are the Company's share of such advances made to the operator of certain properties in which the Company has interests. The contract under which the advances were made requires minimum payments out of ⅓ of monthly gas sales. The contract provides for additional advances as more reserves are developed. Full repayment of the advances is due ten years after the date of the last advance, and the contract provides that the gas purchaser will have a lien on the properties to secure repayment. The advances do not bear interest. The Company is contingently liable for the repayment to the operator of $1,003,480 of advances made to date applicable to the portion of the Company's interest in the properties earned by third parties under turnkey development contracts.

Substantially all of the Company's property and equipment is pledged as collateral for the notes payable and long-term debt.

D. Taxes on Income

Income tax provisions do not bear a normal relationship to earnings before tax primarily because the Company and its subsidiaries have claimed statutory deductions such as intangible development costs and related items which are capitalized for financial purposes (approximately $4,350,000 at September 30, 1973). The foreign income taxes provided in the financial statements are applicable to the Company's Canadian operations. No income taxes are payable for this provision because net operating loss carryovers are available from prior years. At September 30, 1973, the Company had consolidated net operating loss carryovers for U.S. Federal tax purposes of approximately $1,800,000 expiring in 1974 through 1978. Net operating loss carryovers and statutory deductions relating to the Company's Canadian operations which are available to offset future Canadian tax provisions are in excess of this amount at September 30, 1973.

E. Common Stock

During fiscal 1973, the stockholders of the Company approved an amendment to the Company's existing qualified stock option plan which increased by 100,000 shares the number of shares of the Company's common stock which may be granted to officers and key employees of the Company and its subsidiaries. Options granted under this plan are to be exercisable at prices not less than the fair market value of the Company's common shares on the date of grant, become exercisable 25% annually beginning one year from the date of grant and expire five years from the date of grant.

Transactions during fiscal 1972 and 1973 were:

	Shares		
		Options	
	Reserved	Outstanding	Exercisable
Balances at September 30, 1971	93,000	88,000	49,250
Reserved	100,000		
Granted ($8.75 — $10 per share)		65,000	
Becoming exercisable ($8 — $12.375 per share)			12,500
Exercised ($7.125 — $8 per share)	(38,000)	(38,000)	(38,000)
Balances at September 30, 1972	155,000	115,000	23,750
Becoming exercisable ($8 — $12 per share)			26,875
Expired ($12.375 per share)		(7,500)	(7,500)
Cancelled ($10 — $12 per share)		(17,500)	(6,250)
Granted ($10.25 per share)		35,000	
Balances at September 30, 1973	155,000	125,000	36,875

F. Earnings Per Share

Earnings per common and common equivalent share are based on the weighted average number of shares outstanding during the year, assuming exercise of all stock options having exercise prices less than the average market price of the Company's common stock. The 6% convertible notes have an anti-dilutive effect on earnings per share.

G. Event Subsequent to Balance Sheet Date

In December 1973, the Company negotiated an agreement in principle with a bank relating to the granting of a $5,000,000 revolving credit arrangement convertible into a term loan. Management anticipates consummation of this credit arrangement early in calendar 1974. A portion of the proceeds of this loan will be used to liquidate certain of the Company's long-term debt outstanding at September 30, 1973.

Accountants' Report

Board of Directors
Barnwell Industries, Inc.
Shreveport, Louisiana

We have examined the consolidated balance sheet of Barnwell Industries, Inc. and subsidiaries as of September 30, 1973 and 1972, and the related statements of operations, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Barnwell Industries, Inc. and subsidiaries at September 30, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.
Certified Public Accountants

Houston, Texas
December 14, 1973 (December 28, 1973 with respect to Note G)

Design: The Graphic Expression

Barnwell Industries, Inc.